

Message Text

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PAGE 01 BONN 00058 01 OF 02 021747Z

47

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 PA-01 PRS-01 USIA-06 IO-10 FEAE-00 SAJ-01

ACDA-05 /094 W

----- 043799

R 021734Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7055

INFO USMISSION USBERLIN

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

AMEMBASSY BERLIN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY LONDON

USMISSION OECD PARIS

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 00058

E.O. 11652: GDS

TAGS: PINT, PFOR, GW, WB, ECON, EFIN

SUBJECT: CHANCELLOR SCHMIDT'S NEW YEAR STATEMENT

REF: MOSCOW 19197

BEGIN SUMMARY: CHANCELLOR HELMUT SCHMIDT DEVOTED MUCH OF
HIS NEW YEAR'S STATEMENT TO THE ECONOMIC SITUATION IN THE
FEDERAL REPUBLIC. HE INDICATED THAT UNEMPLOYMENT WOULD
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PAGE 02 BONN 00058 01 OF 02 021747Z

INCREASE EARLY IN 1975 DUE TO SEASONAL FACTORS BUT THAT

IN TWELVE MONTHS THE SITUATION WOULD BE IMPROVED. HE PREDICTED THAT DIFFICULT ECONOMIC TIMES WERE AHEAD BUT POINTED OUT THAT THE FRG ECONOMIC SITUATION WAS BETTER THAN IN MOST OTHER COUNTRIES. ON THE POLITICAL FRONT THE CHANCELLOR MADE THE DECIDEDLY OPTIMISTIC STATEMENT THAT GERMANS NEED NOT WORRY ABOUT BERLIN IN 1975, PREDICTED INCREASED RELAXATION IN RELATIONS WITH THE GDR AND POINTED TO REFORMS ACCOMPLISHED BY THE GOVERNMENT OVER THE LAST YEAR. HE ALSO CALLED FOR SOME REFORMS IN 1975. SCHMIDT'S PROGNOSIS ABOUT BERLIN COULD BE POLITICALLY EMBARRASSING IF DIFFICULTIES ARISE IN THE COURSE OF THE NEXT YEAR. END SUMMARY

1. IN HIS NEW YEAR'S STATEMENT DELIVERED ON DECEMBER 31, CHANCELLOR SCHMIDT INDICATED THAT UNEMPLOYMENT WOULD INCREASE EARLY IN 1975 DUE TO SEASONAL FACTORS, BUT IN TWELVE MONTHS' TIME THE SITUATION WOULD BE IMPROVED. MEANWHILE, HOWEVER, THERE WILL BE DIFFICULT TIMES WHICH HE LINKED TO THE OIL CRISIS WHICH BEGAN IN 1973.

2. THE CHANCELLOR HIGHLIGHTED THE FOLLOWING POINTS, CONTRASTING THE ECONOMIC SITUATION IN THE FRG WITH OTHER COUNTRIES:

A. THE FRG HAS THE BEST TRADE AND PAYMENTS BALANCE AS WELL AS THE LARGEST GOLD AND FOREIGN EXCHANGE RESERVES.

B. THE GLOBAL RECESSION HAS HAD LESS EFFECT IN GERMANY THAN ELSEWHERE, WHICH IS SUPPORTED BY THE UNEMPLOYMENT STATISTICS WHICH ARE NOT SO HIGH AS IN MOST OTHER COUNTRIES.

C. THE MAJORITY OF THE DM 10 BILLION COUNTER. CYCLICAL RESERVE WILL BE USED TO STIMULATE THE ECONOMY.

D. TAX REFORM AND CHILDRENS ALLOWANCES WILL ALSO HELP TO STIMULATE THE ECONOMY.

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PAGE 03 BONN 00058 01 OF 02 021747Z

E. THE NET REAL INCOME OF THE WORKER IS THE FOURTH HIGHEST IN THE WORLD.

F. NO OTHER COUNTRY IN THE WESTERN WORLD HAS CONTROLLED INFLATION SO WELL AS THE FRG.

3. TURNING TO POLITICAL DEVELOPMENTS, SCHMIDT TOOK A DECIDEDLY OPTIMISTIC POSITION ON THE QUESTION OF

BERLIN. HE SAID THAT THE GERMANS NEED NOT WORRY ABOUT
BERLIN IN 1975 ("UM BERLIN BRAUCHEN WIR UNS IM NEUEN
JAHR KEINE SORGEN ZU MACHEN") AND PREDICTED THAT RELA-
TIONS WITH THE GDR WOULD BECOME MORE RELAXED.

4. IN THE PORTION OF THE STATEMENT DEVOTED TO THE
POLITICAL SITUATION, CHANCELLOR SCHMIDT ALSO STRESSED THE
REFORMS ACCOMPLISHED BY THE GOVERNMENT IN 1974 WHICH
PROVIDE IMPROVED SECURITY FOR PRIVATE PENSION FUNDS AS
WELL AS INCREASES IN UNEMPLOYMENT BENEFITS AND SOCIAL
SECURITY. HE PROMISED FUTURE REFORMS (E.G., CO-DETERMI-
NATION, REFORM OF THE LEGAL STATUS OF THE FAMILY AND

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PAGE 01 BONN 00058 02 OF 02 021750Z

47

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 00058

CHANGES IN THE CRIMINAL CODE). THE CHANCELLOR PROMISED TO DO WHAT WAS "NECESSARY AND REASONABLE" TO PROTECT GERMAN SOCIETY AGAINST POLITICAL TERRORISM AND WARNED AGAINST HYSTERIA. TURNING TO FOREIGN POLICY HE SAID THAT GERMANY FACED NO PARTICULAR PROBLEMS IN 1975 AND WAS PREPARED FOR CLOSER COOPERATION BETWEEN THE NEWLY-RICH OIL-PRODUCING STATES AND INDUSTRIALIZED NATIONS.
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PAGE 02 BONN 00058 02 OF 02 021750Z

5. COMMENT: SCHMIDT'S STATEMENT ON BERLIN IS THE MOST OPTIMISTIC PREDICTION ON THE CITY BY A LEADING GERMAN (OR OTHER WESTERN) POLITICIAN IN EMBASSY RECOLLECTION. PRESUMABLY THE CHANCELLOR WOULD NOT TAKE SUCH A POLITICAL RISK IF HE WERE NOT CONVINCED THAT THE SOVIETS WILL ENSURE THAT BERLIN PROBLEMS ARE MANAGED IN SUCH A WAY THAT THEY DO NOT ADVERSELY AFFECT PROSPECTS FOR ECONOMIC COOPERATION WITH THE FEDERAL REPUBLIC. (AS POINTED OUT

IN EMBASSY MOSCOW'S 19197, SUCH ECONOMIC COOPERATION IS NOW EVEN MORE IMPORTANT TO THE SOVIETS IN LIGHT OF THE DIFFICULTIES THEY HAVE HAD IN OBTAINING CREDITS FROM THE UNITED STATES FOR LARGE-SCALE DEVELOPMENT PROJECTS IN THE USSR.) THE CHANCELLOR'S WILLINGNESS TO GO OUT ON A LIMB AND HIS UPBEAT PROGNOSIS ABOUT BERLIN ARE PRESUMABLY ALSO INTENDED TO HELP GOVERNING MAYOR SCHUETZ AND THE SPD IN THE MARCH 2 ELECTIONS. WHILE STRONG SOVIET INTEREST IN OBTAINING ECONOMIC COOPERATION FROM THE FRG IS BORNE OUT BY EMBASSY MOSCOW'S ANALYSIS (REFTEL), THE CHANCELLOR'S OPTIMISTIC PUBLIC STATEMENT GIVES A HOSTAGE TO FATE AND COULD BE POLITICALLY EMBARRASSING SHOULD DIFFICULTIES ARISE OVER BERLIN IN 1975.

6. SCHMIDT'S COMMENTS ABOUT THE ECONOMIC SITUATION CONTAIN NO SURPRISES AND MERELY RESTATE THE OFTHEARD LITANY OF COMPARATIVE ACCOMPLISHMENTS. PERHAPS NOTABLE IS THAT A TWELVE-MONTH PERIOD OF HARD TIMES AHEAD WAS CITED. THE "OVER THE HILL BY EARLY SUMMER" COMMENT OF A FEW DAYS AGO (BONN 19235) PROBABLY REFERRED TO THE POINT WHEN THE CYCLICAL SITUATION WILL HAVE TURNED AROUND. ON THE OTHER HAND, TWELVE MONTHS FROM NOW PRODUCTION AND EMPLOYMENT LEVELS ARE ANTICIPATED TO ONCE MORE BE UP TO AND SURPASSING CURRENT LEVELS. END COM-

MENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SPEECHES, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN00058
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750002-0817
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750183/aaaacuwe.tel
Line Count: 225
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 MOSCOW 19197
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by KelleyW0>; APPROVED <10 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHANCELLOR SCHMIDT'S NEW YEAR STATEMENT
TAGS: PINT, PFOR, ECON, EFIN, GE, WB, (SCHMIDT, HELMUT)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006